

Message Text

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62

ACTION ARA-20

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COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01

DODE-00 PM-07 H-03 L-03 NSC-07 PA-04 PRS-01 SS-20

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R 041145Z APR 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 2589

INFO AMCONSUL RIO DE JANEIRO

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LIMITED OFFICIAL USE BRASILIA 2259

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TAGS: EFIN ECON BR

SUBJECT: GAS PRICES INCREASED AND CONTROLS ON MEAT PRICES
CONSIDERABLY EASED: FIRST STEPS UNDER NEW GOVERNMENT'S POLICY
OF GREATER RELIANCE ON MARKET FORCES

REF: BRASILIA 1966

1. SUMMARY: IN ANNOUNCING A 32.33 PERCENT AVERAGE INCREASE
IN PETROLEUM DERIVATIVES (GASOLINE, DIESEL OIL, KEROSENE AND
LIQUIFIED PETROLEUM GAS) EFFECTIVE MARCH 31 AND A LOOSENING OF
PRICE CONTROLS ON MEAT, THE NEW GOVERNMENT IS MOVING FORWARD
TO IMPLEMENT POLICY ANNOUNCED BY PRESIDENT GEISEL (REFTEL) OF
GREATER RELIANCE ON MARKET FORCES IN DETERMINING PRICES. SINCE
PREVIOUS ADMINISTRATION'S POLICY OF TRYING TO KEEP INFLATION
TO ARTIFICIALLY LOW LEVEL LED TO CERTAIN DEGREE OF REPRESSED
INFLATION DURING 1973, THERE IS LIKELY TO BE A BULGE IN INFLA-
TION IN EARLY PART OF 1974. FINANCE MINISTER SIMONSEN IS
HOPEFUL THAT PRICE INCREASES WILL TAPER OFF AFTER

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APRIL ALTHOUGH HE IS FORECASTING A RATE OF INFLATION THIS YEAR

CONSIDERABLY ABOVE THAT OF 1973 (I.E., 13.7 PERCENT). HIS COMMENTS TO DATE SUGGEST THAT HE EXPECTS INFLATION RATE IN 1974 TO BE IN RANGE OF 20-25 PERCENT. GOVERNMENT EFFORTS TO CONTAIN INFLATION CONTINUE, HOWEVER, AS GOVERNMENT IMPOSES 15 PERCENT LIMIT ON PRICE INCREASES FOR PUBLIC SERVICES. ON BASIS PRELIMINARY RESULTS, FIRST QUARTER INFLATION WAS ABOUT 7 PERCENT AS COMPARED TO 4.13 PERCENT SAME TIME LAST YEAR. END SUMMARY.

2. THE GOVERNMENT'S NATIONAL PETROLEUM COUNCIL (CNP) ANNOUNCED EFFECTIVE MARCH 31 AN AVERAGE INCREASE OF 32.33 PERCENT IN PETROLEUM DERIVATIVES. ANNOUNCED INCREASES WERE AS FOLLOWS: REGULAR GASOLINE 35.59 PERCENT, HIGH TEST GASOLINE 38.36 PERCENT, DIESEL OIL 26.81 PERCENT. LATEST INCREASES BRING CUMULATIVE RISE IN AVERAGE GAS PRICES SINCE OCTOBER 1973 TO 77.3 PERCENT. TOTAL INCREASE WOULD HAVE EXCEEDED 100 PERCENT HAD THE GOVERNMENT NOT LOWERED TAX RATES ON PETROLEUM DERIVATIVES ON DECEMBER 31 BY AN AVERAGE OF 55 PERCENT. BECAUSE OF HIGHER GAS PRICES, HOWEVER, REDUCED TAX RATES NOT EXPECTED TO AFFECT TOTAL TAX REVENUES.

3. IN BRASILIA REGULAR GASOLINE NOW COSTS CR\$1.61 PER LITER (95.02 U.S. CENTS PER GALLON) AND HIGH TEST CR\$2.20 PER LITER (US\$ 1.30 PER GALLON). PRICES IN OTHER MAJOR CITIES ARE ONLY marginally different.

4. WITH NEW PRICE STRUCTURE, THE GOVERNMENT PASSES ONTO THE CONSUMERS SUFFICIENT AMOUNT OF BURDEN OF HIGHER COST OF IMPORTED OIL SO AS TO ELIMINATE NEED TO SUBSIDIZE PETROBRAS. IT IS REPORTED THAT, SINCE OCTOBER OF LAST YEAR, THE NATIONAL TREASURY HAD SUBSIDIZED PETROBRAS TO THE TUNE OF US\$ 440 MILLION. CURRENT PRICES WILL BE REVIEWED AT THE END OF 90 DAYS UNLESS ARAB COUNTRIES DECIDE TO REVIEW THEIR OIL PRICE SCHEDULE BEFORE THE JUNE 30 DATE WHICH THEY HAVE SET FOR THE NEXT GENERAL EXAMINATION OF OIL PRICES.

5. CONCURRENT WITH PETROLEUM PRICE CHANGES, THE GOVERNMENT ALSO ANNOUNCED A CONSIDERABLE LOOSENING OF PRICE CONTROLS ON MEAT WHICH HAD REMAINED UNCHANGED SINCE LAST DECEMBER. THE PURPOSE OF THIS MEASURE WAS TO PERMIT HIGHER PRICES TO BE LIMITED OFFICIAL USE

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CHARGED ON A NUMBER OF MEAT PRODUCTS. THE PREVIOUS PRICE SCHEDULE HAD BEEN CONSIDERED TOO LOW BY THE MEAT PRODUCERS AND AS A RESULT MANY OF THEM WITHHELD SUPPLIES FROM THE MARKET. A MEAT SHORTAGE DEVELOPED THROUGHOUT THE COUNTRY, CREATING A PARTICULARLY EMBARRASSING SITUATION FOR THE GOVERNMENT.

6. IN PRESS INTERVIEW FINANCE MINISTER SIMONSEN HAS STATED

THAT PRELIMINARY RESULTS FOR FIRST THREE MONTHS INDICATE AN INFLATION RATE OF 7 PERCENT AS COMPARED WITH RATE OF 4.13 PERCENT DURING FIRST QUARTER LAST YEAR. HE ALSO NOTED THAT THE GOVERNMENT'S OBJECTIVE WAS TO KEEP MONEY SUPPLY EXPANSION IN 1974 TO 36 PERCENT AS COMPARED WITH 47 PERCENT INCREASE REGISTERED IN 1973. HIS PUBLIC COMMENTS SUGGEST THAT THIS YEAR BRAZIL EXPECTS A RATE OF INFLATION IN 20-25 PERCENT RANGE.

7. GREATER RELIANCE ON MARKET FORCES BY THE GEISEL ADMINISTRATION SHOULD NOT BE INTERPRETED TO MEAN THAT EFFORTS TO RESTRAIN INFLATION HAVE BEEN ABANDONED. IN ADDITION TO SETTING MONEY SUPPLY EXPANSION IN 1974 BELOW THAT OF 1973, THE GOVERNMENT HAS ALSO ANNOUNCED THAT IN 1974 IT WILL LIMIT PRICE INCREASES OF PUBLIC SERVICES TO 15 PERCENT.

8. COMMENT: THE NEW GOVERNMENT'S DETERMINATION TO RELY MORE HEAVILY ON MARKET FORCES IN DETERMINING PRICES IS NO NOVEL IDEA TO BRAZIL. IT MERELY BRINGS TO AN END A TEMPORARY DEVIATION IN 1973 FROM A FAIRLY FREE MARKET PRICE APPROACH. IN RETROSPECT, IT SEEMS CLEAR THAT BRAZILIAN POLICY MAKERS MADE A SERIOUS ERROR LAST YEAR IN FIXING AN ARTIFICIALLY LOW TARGET RATE OF INFLATION AND THEN TRYING TO SUPPRESS PRICES IN ORDER TO COME REASONABLY CLOSE TO THEIR OBJECTIVE. THIS LED TO MARKET DISTORTIONS (SUCH AS SUBSIDIZED PRICES, AND SCARCITIES) WHICH NEW GOVERNMENT IS DETERMINED TO OVERCOME, WITH THE RESULT THAT INFLATION RATE THIS YEAR WILL BE HIGHER THAN WOULD OTHERWISE HAVE BEEN BY THE AMOUNT OF REPRESSED INFLATION OF 1973.

9. IN CONNECTION WITH PETROLEUM PRODUCTS PRICE INCREASES, IT IS NOW EVIDENT THAT THIS GOVERNMENT WILL RELY ON HIGHER PRICES TO CUT BACK GASOLINE CONSUMPTION. DURING FIRST THREE MONTHS OF THIS YEAR GASOLINE CONSUMPTION WAS UP BY ABOUT 10 PERCENT. THE GOVERNMENT IS ALSO TRYING TO MINIMIZE THE INFLATION LIMITED OFFICIAL USE

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TIONARY IMPACT OF HIGHER COST OF IMPORTED PETROLEUM BY KEEPING THE INCREASE FOR DIESEL OIL (WHICH IS AN IMPORTANT INPUT) BELOW THAT OF GASOLINE.
CRIMINS

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